

Defence Services Command and Staff College – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Defence Services Command and Staff College for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Staff College as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Staff College ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Staff College or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Staff College financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Staff College is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Staff College.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Staff College's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Staff College, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Staff College has complied with applicable written law, or other general or special directions issued by the governing body of the Staff College;
- Whether the Staff College has performed according to its powers, functions and duties; and
- Whether the resources of the Staff College had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non- compliance with Sri Lanka Public Sector Accounting Standards

The following observation is made.

Non-compliance with reference to accounting standard	Comments of the Management	Recommendation
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According to the Sri Lanka Public Sector Accounting Standard 07, eventhough an item of property, plant and equipment is revalued the entire class of property, plant and equipment to which that asset belongs required to be revalued, selected few assets had only been revalued in revaluation of assets class of vehicles, furniture and computers and accessories and other assets had not been revalued even as at 31 December 2018.	Revaluation of assets has been carried out by the officers of the Valuation Department from September 2018 and adjustment will be made in the final accounts after receiving the report.	Instructions should be given to revalue the entire class of assets at once as per the accounting standard.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observations	Comments of the Management	Recommendation
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(a) According to the Fixed Assets Register, total value of the fixed assets after deducting the depreciations of the Staff College as at 31 December of the year under review was Rs. 1,349,210,943 and respective amount was shown as Rs. 1,336,590,911 as per the financial statements.	The reason for the difference, due to adjustment made in the property, plant and equipment register as at 31 December 2018 had not been updated correctly.	Fixed Assets Register required to be maintained in updated manner.
(b) Action had not been taken to made provisions in the accounts for audit fees aggregating Rs. 1,639,200 for the period of 2010-2017 or to settle the respective fees.	Information had not been received on amount of audit fees payable even as at 05 January 2019 and payments will be made after receiving concurrence of the Chief Accounting Officer.	Accuracy of the financial statements was ensure by including expenditure that required to be settle at the end of the year.

1.6 Accounts receivable and payable

1.6.1 Payable Accounts

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
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Action had not been taken to settle the loan balance of Rs. 10,992,853 payable to the Sri Lanka Army remained over 5 years by the Staff College.	Necessary approval had been requested to write-off from the accounts.	Action required to be taken to settle the long term loan balances.

2. Financial Review

2.1 Financial Result

Financial result of the Staff College for the year under review was a deficit of Rs. 6,492,910 and the corresponding deficit of the preceding year amounted to Rs. 4,667,249. thus indicating deterioration in the financial results by Rs. 1,825,661. Eventhugh decrease in the expenditure by Rs.4,540,447 as compared with the preceding year, decrease in income by Rs. 7,270,512 mainly attributed for the deterioration of the financial result.

In analysis of the financial results for the year under review with 05 preceding years, deterioration had been shown during the period of year 2012-2018, except year 2015 and it had been fluctuated by annually. However, after adjusting remunerations and depreciations for non- current assets to the financial result, the contribution of the Staff College in 2012 was a Rs. 21,327,028 and it had been gradually improved up to Rs. 40,341,225 by the year 2018.

3. Operating Review

3.1 Procurement Management

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
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The Staff College had incurred Rs. 6,619,998 to procure the capital assets such as photo copy machine, tents, building materials and recurrent expenditure of Rs.11,617,870 for repair of motor vehicles and electric equipment during the year under review through the account of the Chairman of the College and reimbursed subsequently contrary to the paragraph 1.2.1 of the Procurement Guidelines.	Procurement made though the account of the Chairman and subsequently reimbursed, due to procurement of high quality and standardized products and procure at lower cost from trade promotion. Further, goods are purchased on reimbursement basis for the welfare activities of the all rankers of the College, due to goods are not given on the credit basis.	Procurement activities of the entity required to be carried out in formal manner by adhering to Procurement Guidelines.

3.2 Utilization of other entities resources

The following observation is made.

Audit Observations	Comments of the Management	Recommendation
----- 11 acres of land owned to the National Youth Council situated in heiyanthuduwa area had been assigned to the College in year 2011 and revaluation value of the bus amounting to Rs. 2,100,000 owned to the Ministry of Defence used in activities of the College and 13 other vehicles given by the Sri Lanka Army at a cost of Rs. 19,875,000 had not been acquired in legally to the College even as at 31 December 2018.	----- Activities in acquisition of heiyanthuduwa land owned to the National Youth Council to the College are being carried out.	----- Verify the ownership of the land owned to the College and asses the value and action required to be taken to acquire the vehicles owned to the Ministry of Defence and Sri Lanka Army to the College.

3.3 Human Resources Management

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
----- According to the Defence Services Command and Staff College Act. No 5 of 2008, the main objectives of the Staff College are to give professional knowledge required in appointment and promotion of the officers of armed forces and prepare the officers training at the Staff College to function effectively in both command and on the Staff function. 140 students had been completed the degree programme conducted by the College during the year under review and cost of Rs. 2,671,433 had been incurred on behalf of a student. As per the Act, eventhough posts of Professor, Doctors and other posts required to be established for the effective function of the College,	----- Requests had been made in several times to appoint permanent officers for the posts of Accountant, Internal Auditor and Civil Administrative Officer. Amendments is being carried out to the Act of the College as enable to recruit directly for this posts.	----- It is required to recruit academic staff for the secure of quality of the degree course, due to objective of the Collage is to develop human resources.

appointments had not been given for the respective posts in the academic staff even up to end of the year under review. Further, Internal Auditor and Administrative officer had not been appointed for the Staff College.

4. Budgetary Control

The following observation is made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
Total net allocation made in the budget estimate of the Ministry of Defence for the activities of the Staff College was Rs. 399,111,000 and out of that Rs. 36,264,272 of allocation had been remained in unused at the end of the year under review. However, a sum of Rs. 42,309,616 required to be settled as at 31 December 2018 from the transactions made during the year under review as liability.	Commitments had not been entered over the allocation made for the recurrent expenditure and after including accrued expenses in the accounts this amount incurred over the allocation amount. Expenditure incurred over the allocation of Rs. 5,959,010, due to contract variation in construction of library and examination hall complex building	According to the F.R 94, any expenditure or commitment should not be entered unless if there are provisions exist in the Annual Estimate.